

AR90

Cell-Loc

ANNUAL REPORT 2007



Digitized by the Internet Archive
in 2025 with funding from
University of Alberta Library

https://archive.org/details/Cell5830_2007



April 15, 2008

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of Cell-Loc Location Technologies Inc. (the "Company" or "CLTI") for the periods ended December 31, 2007 and December 31, 2006 should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes (the "Financial Statements and Notes"). All financial amounts are expressed in thousands of Canadian dollars, except per share dates and where otherwise indicated.

Forward-Looking Information

The MD&A has been prepared from the Financial Statements and Notes and contains forward-looking statements that are not historical in nature and involve risks and uncertainties. Forward-looking statements are not guarantees as to the Company's future results since there are inherent difficulties in predicting future results. Accordingly, actual results could differ from those expressed or implied in the forward-looking statements.

Financial Highlights

(in thousands of Canadian dollars)	2007	2006	2005
STATEMENT OF OPERATION INFORMATION			
Revenue	\$3,304	\$1,507	\$41
Cost of sales	1,950	600	-
Gross margin	1,354	907	41
Operating expenses			
General and administration	3,442	3,372	2,681
Operations	3,613	1,486	270
Marketing and business development	210	86	20
Depreciation, amortization and write-down of assets	2,243	1,835	317
Foreign exchange, net interest and other	(49)	(240)	355
Net loss	\$(8,105)	\$(5,632)	\$(3,602)
Loss per share (\$ per share) (diluted and non-diluted)	\$(0.06)	\$(0.06)	\$(0.06)
CASH FLOW INFORMATION			
Operating (including non-cash working capital changes)	\$(4,417)	\$(4,584)	\$(3,252)
Financing	5,353	5,571	7,026
Investing	(330)	(1,167)	(3,775)
Cash flow	606	(180)	(1)
Cash, beginning of period	240	420	421
Cash, end of period	\$846	\$240	\$420

BALANCE SHEET INFORMATION

Working capital	\$	896	\$	1,426	\$	597
Network, capital and intellectual property assets		5,939		7,852		8,338
Total Assets		8,532		9,853		9,929
Government assistance and Long-term debt		241		220		508
Shareholders' equity		6,594		9,058		8,427

Corporate Overview

During the year, the Company was focused on its contractual obligations with Itaú Seguros. The agreement with Itaú had an exclusivity clause for a period of two years which prevented the Company from entering into agreements with other insurers. This has subsequently been waived by Itaú for other consideration.

During 2007, the Company installed 33,785 (2006 - 10,762) beacons in vehicles insured by Itaú Seguros. The Company invested \$330 in completing the network and acquiring capital assets during 2007 (2006 - \$1,167). The network passed a third party audit and was deemed commercial in June 2006, when the Company began installing beacons and earning revenues. The Company financed the cost of operations and the deployment of the network in São Paulo through issuance of common stock for net proceeds of \$5,330 (2006 - \$5,517).

Results of Operations

During the year ended December 31, 2007 the Company incurred a net loss of \$8,105 (six cents per share) compared to a net loss of \$5,632 (six cents per share) for the year ended December 31, 2006.

Revenues

(\$000's)	December 31, 2007			December 31, 2006		
	Canada	Brazil	Total	Canada	Brazil	Total
License revenue	\$ 0	\$ 0	\$ 0	\$ 500	\$ 0	\$ 500
Service revenue	1	3,303	3,304	2	1,005	1,007
Cost of sales	0	1,950	1,950	0	600	600

(# Beacons)						
Installed	0	33,785	33,785	10	10,762	10,282
Churn	(10)	(6,869)	(6,879)	0	(490)	(490)
New units billed	0	26,916	26,916	10	10,272	10,282
Units renewed	0	10,272	10,272	0	0	0
Units in service	0	37,188	37,188	10	10,272	10,282

Service revenues related to the Company's wireless location services increased by 229% from 2006 to 2007. This significant growth in revenue is due to the continued growth of installations of the Company's beacons in customer vehicles.



Cost of sales relate to the cost of the beacon that is installed in the customer vehicle. The cost per unit installed increased in 2007 because the cost includes churned beacons that are replaced when an insurance customer discontinues his insurance policy with Itaú Seguros. The churn rate was higher than anticipated during 2007 due to a higher than expected turnover rate for Itaú Seguros' customers.

The Brazil operation realized revenue of \$3,303 (2006 - \$1,005) for beacon sales and service. An additional \$962 (2006 - \$126) of revenue was received but recognition was deferred until 2008 as it relates to services to be provided in the future.

Operating Expenses

Following is a summary of the comparative financial information for the past two fiscal years:

	December 31, 2007			December 31, 2006		
	Canada	Brazil	Total	Canada	Brazil	Total
General and administrative	\$ 2,537	\$ 905	\$ 3,442	\$ 2,522	\$ 850	\$ 3,372
Operations	267	3,346	3,613	257	1,229	1,486
Marketing and business development	210	-	210	86	-	86
Depreciation and write-down of assets	1,545	698	2,243	1,278	557	1,835

General and Administrative

Expenses for general and administrative costs for the twelve-month period were \$3,442. The expenses were incurred to operate and staff the corporate office (\$2,537) and the administrative cost of the Brazilian venture (\$905). Corporate office costs consist mainly of personnel, office rent and administration and travel costs. Included in this cost is a charge for stock based compensation of \$494 (2006 - \$564) relating to the Company's stock option plan. The Brazilian subsidiary operates the office in São Paulo in support of the operations in Brazil. General and administrative costs remained consistent throughout the two years as the Company maintained relatively constant staffing levels and office costs.

Operations

Operations expenses for 2007 of \$3,613 resulted from operating the Brazil network (\$3,346), the Calgary network (\$243) and Saskatoon network (\$24). Operating costs for the Calgary network has remained relatively constant during the past two years. The Saskatoon network was shut down in July 2007, resulting in declining operating costs in the second half of the year. The Brazil operating costs increased during 2007 as a result of the increased level of activity in 2007 and the operation of the network for a full year in 2007 versus a half-year in 2006. The majority of operating costs are relatively fixed for the current level of operations. As the number of customers in the network increases, it is expected that the operating cost per unit will continue to decrease.

Marketing and business development

Marketing and business development expenses for 2007 of \$210 (2006 - \$86) resulted from international business development activities. Business development costs consist mainly of



compensation costs for the newly hired VP International and for travel costs incurred by company officials in order to meet with potential technology partners and customers.

Depreciation and write-down of network assets

Depreciation increased in 2007 as a result of having a full year of network operations during the year versus a half-year in 2006. The Company periodically reviews its inventory of network components to identify obsolete items and removes or disposes of these assets. In addition, the valuation is reviewed to determine whether any impairment exists for the valuation of these assets. As a result of this review, it was determined that a charge of \$890 (2006 - \$961) should be taken against the inventory of network assets available for deployment. While these assets remain available for use in future deployments, it was deemed appropriate to adjust the valuation as described.

Other

Gain on reduction of government assistance

Under the terms of the contract with the National Research Council, the amount recorded as government assistance payable has been reduced to the amount originally advanced less repayments made to date. The benefit of the reduced principal of \$238 results in income from forgiveness of debt in 2006.

Financial Condition, Liquidity and Requirements

The Company had a cash balance of \$846 at December 31, 2007. Cash increased in the year by \$606 as the cash used in operations of \$4,417 (2006 - \$4,584); invested in the Brazil network \$330 (2006 - \$1,167) was less than the funds received through financing activities \$5,353 (2006 - \$5,571). The company's working capital decreased by \$530 to \$896 (2006 - \$1,426).

It is expected that the Company's business in Brazil will generate enough revenues to become self sufficient during the second half of 2008. Surplus cash generated in the Brazilian operations will be repatriated to Canada as a repayment of advances made, and will be used to fund ongoing operations in Canada as well as future expansion.

SUMMARY OF QUARTERLY RESULTS (\$,000)

(in thousands of Canadian dollars)	Three Months Ended							
	Dec. 31, 2007	Sept. 30, 2007	Jun. 30, 2007	Mar. 31, 2007	Dec. 31, 2006	Sept. 30, 2006	Jun. 30, 2006	Mar. 31, 2006
BEACONS								
Installed (Net)	4,674	7,729	9,930	4,583	5,039	5,136	102	10
Renewed	5,039	5,136	102					
STATEMENT OF OPERATIONS								
Revenue	\$788	\$980	\$1,004	\$532	514	471	521	1
Cost of sales	549	424	680	297	331	264	5	0
Margin	239	556	324	235	183	207	516	1
Operating expenses								
General and administration	772	885	843	942	1,105	648	760	859
Operations	926	956	944	787	669	629	123	65
Marketing and business development	146	25	20	19	63	8	7	8
Foreign exchange, interest expense and other	(50)	12	(4)	(7)	(178)	(170)	2	106
Depreciation and amortization and write down of network assets	1,424	294	262	263	1,472	238	64	61
Net loss	\$(2,979)	\$(1,616)	\$(1,741)	\$(1,769)	\$(2,948)	\$(1,146)	\$(440)	\$(1,098)
Loss per share (\$ per share) (diluted and non-diluted)	\$(0.03)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.04)	\$(0.01)	\$(0.00)	\$(0.01)
CASH FLOW INFORMATION								
Operations (including non-cash working capital changes)	\$(958)	\$(582)	\$(1,569)	\$(1,308)	\$(2,713)	\$(1,121)	\$(311)	\$(439)
Financing	1,533	(14)	11	3,823	63	3,308	130	2,070
Investing	(186)	46	5	(195)	1,112	(477)	(496)	(1,306)
Cash flow	389	(550)	(1,553)	2,320	(1,538)	1,710	(677)	325
Cash, beginning of period	457	1,007	2,560	240	1,778	68	745	420
Cash, end of period	\$846	\$457	\$1,007	\$2,560	\$240	\$1,778	\$68	\$745
BALANCE SHEET INFORMATION								
Working capital	\$896	\$1,142	\$2,375	\$3,923	\$1,426	\$2,796	\$666	\$584
Network, capital and intellectual assets	5,939	7,177	7,517	7,784	7,852	9,532	9,293	9,583
Long-term debt, government assistance	241	146	175	205	220	588	650	511
Shareholders' equity	6,594	8,173	9,717	11,502	9,058	11,740	9,309	9,656

Discussion of Quarterly Results

The quarterly results reflect the transformation of the Company from the development stage into one with significant commercial operations. From the commencement of commercial operations in Brazil in June 2006, the Company has continued to install beacons for its customer, Itaú Seguros. From the start of operations, the Company has installed a total of 44,547 beacons, of which 37,188 were in service at the end of 2007. The Company's revenue includes a portion related to the sale of the beacon recognized at the time of the sale, and a service component, which is recognized throughout the term during which the service is provided. The installations have reflected a seasonal trend that results in greater numbers of installations during the



Brazilian winter (Q2 and Q3). Also, the increase in number of beacons in service results in a larger proportion of revenues recognized from the service component of annual renewals. For renewals, the entire amount billed relates to the service, with no incremental cost of sale associated with the revenue. This trend is expected to provide the Company with a significant base of revenue from renewals in future periods.

General and administration expenses have stabilized to average \$226 in Brazil and \$511 in Canada per quarter (exclusive of non-cash stock based compensation charges). The general and administration expenses in Canada include both corporate and technical staff located in Calgary.

Operating expenses have also increased with the commencement of commercial activity in Brazil in June 2006. Operating costs include the costs associated with renting antenna locations, operating communication links, maintaining a call center, operating beacon installation centers, running a network operations center and operating and maintaining a network. The majority of operating costs are relatively fixed for the activity levels experienced in our network. Quarterly operating costs are averaging \$67 in Canada and \$836 in Brazil. Depreciation and amortization has also increased to reflect the commencement of the network operations in Brazil and the resulting amortization of the capitalized costs. Also, at year-end the Company took an additional charge of \$890 to reflect an impairment in value of network assets available for deployment.

Outlook

As we progress into our second full year of commercial operations in São Paulo, Brazil during 2008, we continue to benefit from the experience of operating our network based technology in what we believe to be world class show-case. The Company has demonstrated its ability to effectively and efficiently compete with other well established location based technology service providers in this market.

One of our near term objectives will be to continue expanding our market share of the stolen vehicle recovery vertical in both the insured and uninsured markets. Our recent announcement of our agreement with SASCAR is intended to actively pursue both markets. However, as a Company, our strategy to contract directly with insurance companies with large fleets in the coverage area will be a primary objective. We also remain optimistic about our ability to enter into agreements offering telemetry services during 2008. We are of the belief that this is a significant market where our low cost data solution will have a competitive advantage.

Concurrently, the Company will aggressively work to lower the cost structure of our services by lowering our Beacon manufacturing and component costs as well as other network related components, among others. Continuing to work on lowering our cost structure is key to our expansion opportunities in Brazil as well as globally. To this end, we anticipate that we will complete various agreements during 2008 that will substantially lower the cost of our hardware and services.

During 2008 we anticipate consolidation in the LBS market space. Real-time location services as opposed to tracking technologies will, in our opinion, continue to be recognized as the desired product. Tracking technologies will continue to lose market share as the demand for location-on-demand along with specific information or data will increase along current trends. We remain confident that our low cost location solution will be recognized as a leader in this evolving market.

Critical Accounting Policies and Estimates

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada. The preparation of these financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates are based on Management's historical experience and various other assumptions that are believed by Management to be reasonable under the circumstances. Such assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

The following critical accounting policies affect our more significant estimates and assumptions used in preparing our consolidated financial statements:

1. The Company reviews its inventory of assets available for network deployment for potential obsolescence or impairment in carrying value. Management estimates the amount of this inventory that could be used in network deployments in the foreseeable future.
2. The Company evaluates its future tax assets and records a valuation allowance where the recovery of future tax does not meet the required level of certainty. At December 31, 2007, valuation allowances are provided for the full amount of future tax assets.
3. The Company reviews the estimated useful life of its network assets to determine the appropriate depreciation rates for amortizing the capital costs.
4. The Company uses the Black-Scholes model to value its stock based compensation. In order to use this model, management estimates the volatility of the underlying stock, the estimated forfeiture rate for the options and the estimated risk-free rate of return.

Changes in Accounting Policies

Financial instruments - The CICA has adopted a new accounting standard, Section 3855, Financial Instruments – Recognition and Measurement, effective for fiscal years beginning on or after October 1, 2006. This section describes the standards for recognizing and measuring financial instruments on the balance sheet and the standards for reporting gains and losses in the financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value. Also, a new location for recognizing certain unrealized gains and losses – other comprehensive income – has been introduced. This provides the ability for certain unrealized gains and losses arising from changes in fair value to be temporarily recorded outside the statement of earnings but in a transparent manner. The new standards were effective for the Company beginning January 1, 2007. The adoption of these new standards did not have any material effect on the Company's financial statements.

Comprehensive Income and Equity – These standards give requirements for reporting and presenting other comprehensive income ("OCI"). As a result of adopting this standard, the Company's financial statements now include a Statement of Comprehensive Income. For the Company, this statement shows the gains and losses relating to unrealized foreign currency translation amounts from the consolidation of the Company's self-sustaining subsidiary operations in Brazil.

Four new CICA Handbook Sections have been issued which will require additional disclosure in the Company's financial statements commencing January 1, 2008:

Financial Instruments – Disclosure and Presentation.

In March 2007, the CICA issued Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation. The new guidance replaces Section 3861 and

provides expanded presentation and disclosure requirements for financial instruments. These Sections are effective for interim and annual fiscal years beginning on or after October 1, 2007. The implementation of these standards is not expected to have a material effect on the Company's financial statements.

Capital Disclosures

In December 2006, the CICA issued section 1535, Capital Disclosures. This section establishes standards for disclosing information about an entity's capital and how it is managed. This section is effective for interim and annual fiscal years beginning on or after October 1, 2007. The new requirements are for disclosures only and will not impact the financial results of the Company.

Inventories

Handbook Section 3031 "Inventories" will become effective January 1, 2008. This standard is not expected to have a material effect on the Company's financial statements.

Disclosure Controls and Procedures

The CEO and CFO are responsible for establishing and maintaining the Company's disclosure controls. Internal controls over financial reporting have been designed under the supervision of the CEO/CFO to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statement for external purposes in accordance with Canadian GAAP.

Consolidated Financial Statements of

**CELL-LOC LOCATION
TECHNOLOGIES INC.**

For the years ended December 31, 2007 and 2006

Management's Report

The accompanying consolidated financial statements are the responsibility of management and have been approved by the Board of Directors of the Company. Management has prepared and presented the consolidated financial statements in accordance with accounting principles generally accepted in Canada and has made any significant accounting judgments and estimates required. Management has ensured that financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management has developed and maintains systems of internal controls designed to provide reasonable assurance that reliable and relevant financial information is produced. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and ensuring Management meets their financial reporting responsibilities.


The Audit Committee consists solely of directors who are not officers of the Company and reviews with Management and the external auditors the annual consolidated financial statements of the Company prior to submission to the Board of Directors for final approval. The Audit Committee also meets during the year with Management and the external auditors to discuss internal control issues, auditing matters and financial reporting issues. External auditors have free access to the Audit Committee without obtaining Management approval.

The shareholders have appointed KPMG LLP as the external auditors of the Company, and in this capacity, they have examined the consolidated financial statements as at December 31, 2007 and 2006 and for the periods then ended.

April 15, 2008



SHELDON D. REID
PRESIDENT & CEO



DAVID D. GUEBERT
VP FINANCE & CFO



KPMG LLP
Chartered Accountants
2700 205 - 5th Avenue SW
Calgary AB T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Cell-Loc Location Technologies Inc. as at December 31, 2007 and 2006 and the consolidated statements of loss and comprehensive loss, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
April 15, 2008

CELL-LOC LOCATION TECHNOLOGIES INC.

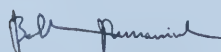
Consolidated Balance Sheets

(In thousands of dollars)

	December 31, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 846	\$ 240
Restricted cash	-	77
Accounts receivable	466	225
Deposits and advances	586	967
Inventory	512	258
Other current assets	183	234
	2,593	2,001
Long-term assets:		
Network assets (note 4)	5,460	7,270
Capital assets (note 4)	407	434
Intellectual property and other intangible assets (note 4)	72	148
	\$ 8,532	\$ 9,853
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank operating line	\$ -	\$ 54
Accounts payable and accrued liabilities	735	395
Deferred revenue	962	126
	1,697	575
Long-term debt - Government assistance (note 5)	241	220
	1,938	795
Shareholders' equity:		
Share capital (note 6b)	25,481	20,151
Contributed surplus	1,544	1,050
Accumulated other comprehensive income	(1)	182
Deficit	(20,430)	(12,325)
	(20,431)	(12,143)
	6,594	9,058
Future operations (note 1)		
Commitments and contingencies (note 9)		
Subsequent event (note 11)		
	\$ 8,532	\$ 9,853

See accompanying notes to consolidated financial statements.

On behalf of the Board



Bohdan (Don) Romaniuk



Charles H.D. Hotzel

CELL-LOC LOCATION TECHNOLOGIES INC.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2007 and 2006

(In thousands of dollars except per share data)

	2007	2006
Revenues	\$ 3,304	\$ 1,507
Cost of sales	1,950	600
Gross margin	1,354	907
Operating expenses:		
Operations	3,613	1,486
Marketing and business development	210	86
General and administrative	3,442	3,372
Write-down of network assets (note 4)	890	961
Depreciation and amortization	1,353	874
Total operating expenses	9,508	6,779
Loss from operations	(8,154)	(5,872)
Add:		
Gain on reduction of government assistance debt (note 5)	-	238
Interest expense	(21)	(3)
Interest income	38	11
Foreign exchange gain (loss)	87	(3)
Income taxes	(55)	(3)
Net loss	\$ (8,105)	\$ (5,632)
Other comprehensive income		
Change in foreign currency translation gains and losses on investments in foreign operations	(183)	182
Comprehensive loss	\$ (8,288)	\$ (5,450)
Net loss per share	\$ (0.06)	\$ (0.06)
Weighted average number of shares outstanding:		
Basic and diluted	131,411,930	96,656,305
Shares issued and outstanding	139,753,905	110,261,830

See accompanying notes to consolidated financial statements.

CELL-LOC LOCATION TECHNOLOGIES INC.

Consolidated Shareholder's Equity

For the years ended December 31, 2007 and 2006

(In thousands of dollars except share data)

	Number of Shares	Share Capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity (deficit)
Balance, Dec. 31, 2005	83,003,113	\$ 14,634	\$ 486	\$ -	\$ (6,693)	\$ 8,427
Net loss	-	-	-	-	(5,632)	(5,632)
Foreign currency translation	-	-	-	182	-	182
Stock based compensation (note 6c)	-	-	564	-	-	564
Common stock issued (note 6b)	27,258,717	5,517	-	-	-	5,517
Balance, Dec. 31, 2006	110,261,830	\$ 20,151	\$ 1,050	\$ 182	\$ (12,325)	\$ 9,058
Net loss	-	-	-	-	(8,105)	(8,105)
Foreign currency translation	-	-	-	(183)	-	(183)
Stock based compensation (note 6c)	-	-	494	-	-	494
Common stock issued (note 6b)	29,492,075	5,330	-	-	-	5,330
Balance, Dec. 31, 2007	139,753,905	\$ 25,481	\$ 1,544	\$ (1)	\$ (20,430)	\$ 6,594

See accompanying notes to consolidated financial statements.

CELL-LOC LOCATION TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

For the years ended December 31, 2007 and 2006

(In thousands of dollars except per share data)

	2007	2006
Cash provided by (used in):		
Operating:		
Net loss for the period	\$ (8,105)	\$ (5,632)
Items not affecting cash:		
Depreciation and amortization	1,353	874
Write-down of network assets (note 4)	890	961
Gain on reduction of government assistance debt (note 5)	-	(238)
Stock based compensation (note 6(c))	494	564
	(5,368)	(3,471)
Change in non-cash working capital		
Accounts receivable	(241)	(167)
Deposits and advances	381	(165)
Inventory	(254)	(258)
Accounts payable and accrued liabilities	361	(596)
Deferred revenue	836	123
Other	(132)	(50)
	951	(1,113)
	(4,417)	(4,584)
Investing:		
Network assets	(330)	(947)
Intellectual property and capital assets	-	(220)
	(330)	(1,167)
Financing:		
Issue of common stock, net of issue costs	5,330	5,517
Bank operating line	(54)	54
Restricted cash	77	-
	5,353	5,571
Increase (decrease) in cash and equivalents	606	(180)
Cash and equivalents, beginning of period	240	420
Cash and equivalents, end of period	\$ 846	\$ 240
Interest paid	\$ 21	\$ 3

See accompanying notes to consolidated financial statements

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
Years ended December 31, 2007 and 2006
(In thousands of dollars except per share data)

Cell-Loc Location Technologies Inc. (the "Company" or "CLTI") is in the business of researching, developing and licensing its network-based wireless location technology, which integrates proprietary hardware, software and scientific algorithms. CLTI is focused on its beacon technology, which enables location-based services such as fleet tracking, stolen vehicle recovery and inventory tracking. With licensees and through joint ventures, CLTI's goal is to deploy wireless location networks and support the offering of location-based services. Using this model, revenue will come to the Company through upfront licensing fees and royalties, as well as through its joint venture ownership of operating networks.

1. Future operations:

The Company has deployed a network in São Paulo, Brazil and installed its beacon devices in a number of vehicles prior to December 31, 2007. In the coming year the Company will focus on expanding its network in Brazil and deploying networks in other geographic regions.

The Company will continue to deploy existing assets and expertise to model the commercial viability of the service. The Company's network assets are carried at their cost, less impairment arising due to obsolescence or to the likelihood that certain assets may not be used in deploying the networking technology. The net carrying value of deployed assets is \$4,438 (2006 - \$5,336) and available network assets is \$1,022 (2006 - \$1,934) for a total network asset of \$5,460 (2006 - \$7,270). The carrying value of the Company's network assets is dependent upon successful commercial operation in existing networks and future deployment of the Company's network assets and the penetration of its service offering into additional markets. Although the deployable assets have been written down by \$890 in 2007 (\$8,538 since 2003), they remain available for use by the Company in future network deployment opportunities. The timing and commercial success of future network deployment remains uncertain. Should substantial deployment of the network assets not take place, the value of these assets may become subject to impairment.

The Company's ability to generate sales, net income and positive cash flows is dependent upon various factors including its success at obtaining sufficient financing, its ability to identify appropriate business partners, the degree of competition, technology development activity, the ability to fund continued network deployments and operations, the presence of positive general economic conditions and favorable regulatory requirements.

These consolidated financial statements have been prepared on the basis that the Company will continue to raise sufficient financing and to realize its assets and discharge its obligations in the ordinary course of business and do not reflect adjustments, such as revaluation to liquidation values and reclassification of balance sheet items, that would otherwise be necessary if the going concern assumption was not valid.

2. Significant accounting policies:

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with accounting principles generally accepted in Canada and are denominated in Canadian dollars.

(a) Consolidation:

The consolidated financial statements include the accounts of CLTI and its subsidiaries hereinafter collectively referred to as the "Company" or "CLTI". Subsidiaries include the following companies, their location and CLTI's ownership interest:

X3 Telecomunicações e Equipamentos Ltda. (Brazil)	74%
CityTrac Ltd. (Canada)	75%

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
Periods ended December 31, 2007 and 2006
(In thousands of dollars except per share data)

2. Significant accounting policies: (continued)

The Company has entered into a license agreement and joint venture agreement for the Calgary network whereby CLTI owns 30% of the operating company; however, CLTI is responsible for 100% of the network capital costs and network operating costs prior to realization of commercial revenue from the network. To date, there has not been any material commercial activity in the Calgary network.

There is no minority interest reflected on the balance sheet as subsidiaries with minority shareholders have not had material equity contributions from the minority shareholders and these subsidiaries have incurred losses to date. When a subsidiary becomes profitable, 100% of the earnings will accrue to the Company until accumulated losses are off-set.

The Company holds a 35% ownership in a joint venture to license the Company's proprietary Code Division Multiple Access ("CDMA") technology in China. No activity has been recorded related to the joint venture during the years ended December 31, 2007 and 2006.

(b) Use of estimates:

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from estimates.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of cash balances with banks and short-term investments with original maturities of less than three months. The fair value of cash and cash equivalents approximates the amounts shown in the financial statements.

(d) Foreign currency translation:

Financial statements of the Company's self-sustaining foreign subsidiary are translated to Canadian dollars using the exchange rate in effect at the balance sheet date for all assets and liabilities, and at average rates of exchange during the year for revenues and expenses. Gains or losses resulting from these translation adjustments are included in comprehensive income.

(e) Long term assets:

Network assets represent assets that have been deployed into networks, as well as components and in-process assets that are on hand to be manufactured into wireless location products and deployed within the Company's future networks. These network assets are depreciated over their estimated useful lives using the declining balance method once they have been deployed and are available for commercial use. Long-term assets are recorded at cost. In the event of impairment arising due to obsolescence or if it is unlikely that certain assets will not be used, they are written down to fair value. These assets are depreciated over their estimated useful lives using following methods and annual rates:

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
Periods ended December 31, 2007 and 2006
(In thousands of dollars except per share data)

2. Significant accounting policies: (continued)

Assets	Method	Rate
Network assets	Declining balance	20% - 30%
Capital assets	Declining balance	30%
Intellectual property	Declining balance	40% - 60%
Patents and trademarks	Straight-line	20%

Amortization of costs related to network assets begins once the Company commences commercial operations.

When events and circumstances warrant a review, the Company evaluates the carrying value of its long-term assets for potential impairment. An impairment loss is recognized when the estimated net recoverable amount of a long-term asset is less than its carrying value. An impairment loss is measured as the amount by which the carrying amount exceeds its fair value. Any impairment in these assets is written off against earnings in the year that such impairment becomes evident.

(f) Inventory

Inventory consists of beacons available for sale and are valued at the lower of cost and net realizable value, and cost of inventory is determined using the first in, first out method.

(g) Revenue recognition

The Company derives revenue from the sale of geographic licenses; the sale and installation of wireless location beacon devices; and from monthly revenue earned by providing ongoing vehicle location services. Revenue for license sales is realized when all conditions of the contract are fulfilled and the licensing fee is collectable. Revenue from beacon sales and installation revenue is recognized when the beacon is installed. Revenue from location services is recognized on a monthly basis as the services are provided to the customers.

(h) Income taxes:

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(i) Per share data:

Basic and diluted per share amounts are calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for determining dilution, whereby all options and convertible instruments whose average price is less than or equal to the daily weighted average share price of the period to date are considered outstanding and are deemed to have been converted, if diluted at the average share price for the period. Diluted net loss per share is not presented, as the result would be anti-dilutive.

(j) Stock-based compensation plans:

The Company has adopted fair value accounting for stock based compensation. Under this method, all equity instruments awarded to employees, and the cost of the service received as consideration are measured and recognized based on the fair value of the equity instruments

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
Periods ended December 31, 2007 and 2006
(In thousands of dollars except per share data)

2. Significant accounting policies: (continued)

issued with the corresponding amount credited to contributed surplus. Compensation expense is recognized over the vesting period.

3. Newly adopted accounting policies:

Financial Instruments

Effective January 1, 2007, the Company adopted new accounting standards related to financial instruments that were issued by the Canadian Institute of Chartered Accountants ("CICA") in 2005. These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements, except for the presentation of accumulated other comprehensive income. The new standards and policies are as follows:

(i) Financial Instruments – Recognition and Measurement

The new standard requires all financial instruments to be classified as either held to maturity, available for sale, held for trading or loans and receivables. Financial assets classified as held to maturity, loans and other receivables and financial liabilities other than those held for trading are measured at amortized cost. Available for sale financial instruments are measured at fair value with unrealized gains and losses recorded in other comprehensive income until derecognition or impairment, which are recognized through earnings. Financial Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the income statement for the period.

As a result of adopting the new standard the Company designated its cash and cash equivalents as held-for-trading, which is measured at fair value. Accounts receivable, deposits and advances and other current assets are classified as loans and receivables which are measured at amortized cost. Amounts owed under the long term debt, accounts payable and accrued liabilities are classified as other financial liabilities which are measured at amortized cost.

(ii) Comprehensive Income and Equity

The standards give requirements for reporting and presenting other comprehensive income ("OCI"), which is defined as the change in equity from transactions and other events from non-owner sources. The Company financial statements now include a Statement of Comprehensive Income, which includes the components of comprehensive income. For the Company OCI is comprised of unrealized foreign currency translation amounts arising from self-sustaining operations. Cumulative changes in OCI are included in Accumulated Other Comprehensive Income ("AOCI") which is presented as a category within shareholders equity in the Balance Sheet.

(iii) Hedges

The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. As at December 31, 2007 the Company has not designated any hedging relationships.

Recently issued Accounting Pronouncements

Financial Instruments – Disclosure and Presentation.

In March 2007, the CICA issued Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation. The new guidance replaces Section 3861 and provides expanded presentation and disclosure requirements for financial instruments. These Sections are effective for interim and annual fiscal years beginning on or after October 1, 2007. The implementation of these standards is not expected to have a material effect on the Company's financial statements.

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
Periods ended December 31, 2007 and 2006
(In thousands of dollars except per share data)

3. Newly adopted accounting policies: (continued)

Capital Disclosures

In December 2006, the CICA issued section 1535, Capital Disclosures. This section establishes standards for disclosing information about an entity's capital and how it is managed. This section is effective for interim and annual fiscal years beginning on or after October 1, 2007. The new requirements are for disclosures only and will not impact the financial results of the Company.

Inventories

Handbook Section 3031 "Inventories" will become effective January 1, 2008. This standard is not expected to have a material effect on the Company's financial statements.

4. Long term assets:

December 31, 2007	Cost	Accumulated depreciation	Net book value
Network assets:			
Assets available for network deployment	\$ 1,022	\$ —	\$ 1,022
Assets deployed in networks	6,583	2,145	4,438
	7,605	2,145	5,460
Capital assets:			
Equipment and furniture	853	446	407
Leasehold improvements	44	44	—
	897	490	407
Intellectual property and other intangible:			
Patents and trademarks	383	311	72
	\$ 8,885	\$ 2,946	\$ 5,939

December 31, 2006	Cost	Accumulated depreciation	Net book value
Network assets:			
Assets available for network deployment	\$ 1,934	\$ —	\$ 1,934
Assets deployed in networks	6,326	990	5,336
	8,260	990	7,270
Capital assets:			
Equipment and furniture	757	323	434
Leasehold improvements	44	44	—
	801	367	434
Intellectual property and other intangible:			
Patents and trademarks	382	234	148
	\$ 9,443	\$ 1,591	\$ 7,852

The Company periodically reviews its assets available for network deployment in conjunction with its business plans and the foreseeable use of those components in its networks. As a result of this review, assets available for deployment were written down by \$890 (2006 - \$961).

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
Periods ended December 31, 2007 and 2006
(In thousands of dollars except per share data)

5. Long-term debt, government assistance:

The Company assumed obligations related to the contribution agreement dated September 1, 1999 with the National Research Council Industrial Research Assistance Program ("IRAP"). Pursuant to this agreement the Company was initially required to repay 150% of the amounts received through the IRAP to a maximum of \$750. Payments are to be made at a rate of 4% of the Company's non-consolidated revenue until the earlier of full repayment or May 31, 2011. To the extent that the maximum amount was not fully paid by August 30, 2006, payments continue at a rate of 4% of the Company's non-consolidated revenue but the required repayment is reduced to the total amount originally funded less amounts already paid. The benefit of the reduced principal of \$238 results in income from forgiveness of debt during 2006. As at December 31, 2007, the Company has established a liability in the amount of \$270 (2006 - \$270) less a current portion of \$29 (2006 - \$50), which is included in accounts payable and accrued liabilities. The loan is non-interest bearing.

6. Share capital:

(a) Authorized: Unlimited number common shares

(b) Issued and outstanding:

	Common Shares	Amount
Outstanding at December 31, 2005	83,003,113	\$ 14,634
Issued for cash from treasury, net of issue cost	26,888,000	5,427
Issued for cash from warrants	370,717	90
Outstanding at December 31, 2006	110,261,830	\$ 20,151
Issued for cash from treasury, net of issue cost	28,823,529	5,184
Issued for cash from exercise of stock options	54,667	11
Issued for cash from warrants	613,879	135
Outstanding at December 31, 2007	139,753,905	\$ 25,481

(c) Stock option plan:

The Company has a stock option plan (the "ESOP") for directors, officers and employees. Under the ESOP on the grant date 1/3 of options issued are vested, and the remaining options vest equally at the end of one and two years of service or at the completion of certain project milestones. The exercise price was based upon the common stock market price at the grant date. The estimated fair value of stock options at the grant date has been determined using the Black-Scholes option-pricing model with the following assumptions: (i) the expected dividend rate of 0% and expected volatility of 73% to 81%; (ii) risk-free interest rate of 4.3% based on comparable term Canadian Government securities at the date of issue.

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
Periods ended December 31, 2007 and 2006
(In thousands of dollars except per share data)

6. Share capital: (continued)

A summary of option activity during 2007 is shown below:

	Number	Range of Exercise Prices		Weighted average exercise price	Black-Scholes fair market range	
Outstanding at Dec. 31, 2006	7,987,364	\$ 0.120	\$ 1.600	\$ 0.271	\$ 0.041	\$ 0.241
Granted during 2007	4,255,000	\$ 0.160	\$ 0.270	\$ 0.223	\$ 0.065	\$ 0.145
Options exercised	(54,667)	\$ 0.170	\$ 0.230	\$ 0.206	\$ 0.097	\$ 0.155
Options expired	(471,374)	\$ 0.170	\$ 1.600	\$ 0.814	\$ 0.061	\$ 0.227
Outstanding at Dec. 31, 2007	11,716,323	\$ 0.160	\$ 1.600	\$ 0.232	\$ 0.048	\$ 0.227

Options outstanding			Options exercisable		Compensation Expense	
Range of exercise price outstanding	Number outstanding	Weighted average remaining contractual life (months)	Weighted average exercise price	Number exercisable	Weighted average exercise price	
						2007 2006
\$ 0.12 \$ 0.30	9,737,837	40	\$ 0.21	6,786,187	\$ 0.21	\$ 494 \$ 564
0.32 0.34	1,978,486	37	0.32	1,325,827	0.32	- -
0.12 \$ 0.34	11,716,323	39	\$ 0.23	8,112,014	\$ 0.23	\$ 494 \$ 564

(d) Share purchase warrants:

The Company periodically issues share purchase warrants to private placement investors as part of its financing activities. In addition, broker warrants are issued to agents when financing is arranged through brokers. The warrants entitle the holders to acquire common shares of the company at a specified price for a defined period of time of up to two years. The warrants are priced at a premium to the market price of the shares at the time of issue. As a result, the warrants were not accorded any value on issuance. Current year activity for outstanding warrants is summarized as follows:

	Share Purchase Warrants	Broker Warrants
Warrants outstanding at December 31, 2006	39,118,349	2,824,200
Issued during year	24,411,764	1,500,000
Exercised during year	(613,879)	-
Expired during year	(17,535,470)	(1,324,200)
Warrants outstanding at December 31, 2007	45,380,764	3,000,000

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
Periods ended December 31, 2007 and 2006
(In thousands of dollars except per share data)

6. Share capital: (continued)

Share purchase warrants outstanding at December 31, 2007 are summarized as follows:

Year of Expiry	Range of Exercise Price Outstanding		Number outstanding	Weighted average remaining life (month)	Weighted average exercise price
2008	\$ 0.28	\$ 0.40	20,969,000	7.0	\$ 0.314
2009	0.25	0.28	24,411,765	15.0	0.275
	\$ 0.25	\$ 0.40	45,380,765	11.3	\$ 0.293

Broker unit warrants outstanding at December 31, 2007 are summarized as follows:

Year of Expiry	Range of Exercise Price Outstanding		Number outstanding	Weighted average remaining life (month)	Weighted average exercise price
2008	\$ 0.20	\$ 0.20	1,500,000	9.0	\$ 0.200
2009	0.20	0.20	1,500,000	12.9	0.200
	\$ 0.20	\$ 0.20	3,000,000	10.9	\$ 0.200

Share purchase warrants outstanding at December 31, 2006 are summarized as follows:

Year of Expiry	Range of Exercise Price Outstanding		Number outstanding	Weighted average remaining life (month)	Weighted average exercise price
2007	\$ 0.22	\$ 1.91	18,149,349	5.1	\$ 0.262
2008	0.28	0.40	20,969,000	18.7	0.306
	\$ 0.22	\$ 1.91	39,118,349	12.4	\$ 0.285

Broker unit warrants outstanding at December 31, 2006 are summarized as follows:

Year of Expiry	Range of Exercise Price Outstanding		Number outstanding	Weighted average remaining life (month)	Weighted average exercise price
2007	\$ 0.20	\$ 0.30	1,324,200	11.2	\$ 0.220
2008	0.20	0.20	1,500,000	20.0	0.200
	\$ 0.20	\$ 0.30	2,824,200	15.8	\$ 0.209

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
Periods ended December 31, 2007 and 2006
(In thousands of dollars except per share data)

7. Income taxes:

Income tax expense varies from the amount that would be computed by applying the combined Federal and Provincial statutory tax rates. The Company does not anticipate a future tax benefit from operating losses incurred in Brazil. The future tax benefit is determined as follows:

	December 31, 2007	December 31, 2006
Expected recovery at 32.1% (2006 – 32.5%)	\$ (2,602)	\$ (1,829)
Decrease (increase) resulting from:		
Benefit of future tax assets not recognized	\$ 1,149	\$ 984
Foreign losses	1,295	665
Non-deductible expenses	158	183
Other taxes	55	-
Income tax	\$ 55	\$ 3

The significant components of the Company's future Canadian income tax assets and liabilities are as follows:

	December 31, 2007	December 31, 2006
Future tax assets:		
Non-capital losses	\$ 2,405	\$ 2,236
Network, capital and intangible assets	1,638	1,450
Share issue costs	146	151
	4,189	3,837
Future tax asset valuation allowance	(4,189)	(3,837)
Net future tax asset	\$ -	\$ -

At December 31, 2007, the Company has non-capital income tax losses in Canada of approximately \$9,447 (2006 - \$7,700), which may be carried forward to reduce future years' taxable incomes. These losses begin to expire in 2010. In addition, the Company has non-capital income tax losses in Brazil of approximately \$6,624 (2006 - \$2,533) which, depending on filing position, may be utilized to reduce future years' income taxes.

8. Financial instruments:

Financial instruments are comprised of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities. The carrying value of the Company's financial current assets and liabilities approximate their estimated fair values as at December 31, 2007 due to their short terms to maturity.

The Company is exposed to interest rate risk, to the extent that it carries cash and cash equivalents and restricted cash, and available market interest rates, from which the Company earns interest revenue, fluctuate.

The Company is also exposed to foreign exchange risk from changes in the value of the Brazilian Real as a result of its ongoing investment and operations in its Brazilian subsidiary. The Company does not use and is not subject to the settlements of forward exchange contracts in managing this risk.

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
Periods ended December 31, 2007 and 2006
(In thousands of dollars except per share data)

8. Financial instruments: (continued)

The Company is exposed to concentrations of credit risk as the Brazilian segment operates under an exclusive agreement through the end of 2007 with Itaú Seguros S.A. ("Itaú Seguros"), the insurance subsidiary of Investments Itaú S.A. The value of the Brazilian operations and trade receivables are dependent upon Itaú Seguros.

9. Commitments and contingencies:

Future minimum annual lease payments under tower and office operating leases are as follows:

	Canada		Brazil		Total
2008	\$	162	\$	908	\$ 1,070
2009		126		564	690
2010		82		297	379
2011		34		71	105
2012 and thereafter		15		5	20
Total	\$	419	\$	1,845	\$ 2,264

10. Segmented Information:

CLTI operates in two geographic territories Canada and Brazil. Other than the financial statement items specifically noted below, all operations are located in Canada. The segmented information for 2007 is:

	Canada		Brazil		Total
Current Assets	\$	865	\$	1,728	\$ 2,593
Current Liabilities		299		1,398	1,697
Network assets		2,866		2,594	5,460
Capital assets		128		279	407
Revenues	\$	1	\$	3,303	\$ 3,304
Cost of sales		-		1,950	1,950
Gross Margin		1		1,353	1,354
Operating expenses, excluding depreciation and amortization		3,014		4,251	7,265
Depreciation, amortization and write-down of assets		1,545		698	2,243
Loss from operations	\$	(4,558)	\$	(3,596)	\$ (8,154)

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
Periods ended December 31, 2007 and 2006
(In thousands of dollars except per share data)

10. Segmented Information: (continued)

The segmented information for 2006 is:

	Canada		Brazil		Total
Current Assets	\$	271	\$	1,730	\$ 2,001
Current Liabilities		274		301	575
Network assets		2,348		4,922	7,270
Capital assets		154		280	434
Revenues	\$	502	\$	1,005	\$ 1,507
Cost of sales				600	600
Gross Margin		502		405	907
Operating expenses, excluding depreciation and amortization		2,865		2,079	4,944
Depreciation, amortization and write-down of assets		1,278		557	1,835
Loss from operations	\$	(3,641)	\$	(2,231)	\$ (5,872)

11. Subsequent event:

During March 2008, the Company granted 2,265,000 stock options to employees and directors with an exercise price of \$0.15 of which 1/3 were vested on the grant date and the remaining vesting equally at the end of one and two years of service.

Cell-Loc



Suite 220, Franklin Atrium
3015 - 5th Avenue NE
Calgary Alberta T2A 6T8

Telephone: 403-569-5700
Toll Free: 1-877-569-5700
Fax: 403-569-5701

Web site: www.cell-loc.com

